Hitting the Jackpot:
How the House Energy Bill (H.R. 4)
Rewards Millions in Contributions with Billions in Returns

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EXECUTIVE SUMMARY

This report, which was prepared at the request of Rep. Henry A. Waxman, compares contributions from the energy industry to provisions in H.R. 4, the energy bill sponsored by the Republican leadership of the U.S. House of Representatives. The report finds that energy interests that gave millions of dollars in campaign contributions during the last election cycle will receive billions of dollars in tax breaks and subsidies under the legislation.

The cumulative value of the campaign contributions of the coal, oil and gas, nuclear, and electric utility industries in the 2000 election cycle was $69.5 million; the cumulative value of the tax breaks and subsidies for these industries in H.R. 4 is $36.4 billion. If the campaign contributions are viewed as a form of "investment" in the legislative process, the "rate of return" on this investment is an astounding 52,200%. Table 1 shows how much key energy industry sectors contributed to federal campaigns and how much they stand to benefit from H.R. 4.

To put this in perspective, the total $36.4 billion cost of the tax breaks and subsidies in H.R. 4 is equivalent to the federal taxes paid by 9,764,169 typical households in 1998.[1]

Table 1: Energy Interests' Returns on Investment in H.R. 4

Industry	**Total Contributions, 1999-2000**	**Total Industry Benefits in H.R. 4**	**Return on Investment**
Coal	$ 3,800,000	$ 5,844,000,000	153,700%
Oil and gas	$33,300,000	$21,980,000,000	65,900%
Electric Utilities	$18,600,000	$ 5,862,000,000	31,400%
Nuclear	$13,800,000	$ 2,666,000,000	19,200%
TOTALS	$69,500,000	$36,352,000,000	52,200%

[1]Based on median household income tax payment of $3,723 in 1998. *See* Internal Revenue Service, *Individual Income Tax Returns 1998*, Publication 1304, Table 1.1.

I. THE COAL INDUSTRY'S CONTRIBUTIONS AND RETURNS

The coal mining industry gave $3.8 million in the 2000 election cycle, of which 88% went to Republicans.[2]

Authorizations in H.R. 4 would give the coal industry $1.1 billion in direct subsidies over the next three years, plus an additional $1.4 billion over the following seven years.[3] These subsidies include grants for research and development and commercial applications of technologies for coal-fired electricity generation. In addition, the bill provides tax credits for coal-fired power generation worth an estimated $3.3 billion over ten years.[4] These tax credits subsidize both investment in coal-fired generation technologies and production of electricity from coal-fired generation. In total, this amounts to $5.8 billion in federal funding for coal-fired power generation over the next ten years.

The bill also has many special breaks for the coal industry. For example, it would require the government, not industry, to pay the costs for industry applications to mine coal on federal lands.[5] It would also loosen planning requirements to address environmental damage from coal mining operations.[6]

II. THE OIL AND GAS INDUSTRY'S CONTRIBUTIONS AND RETURNS

The oil and gas industry gave $33.3 million in the 2000 election cycle, of which 78% went to Republicans.

The largest tax breaks in H.R. 4 apply to oil and gas production. According to the Joint Committee on Taxation, these tax breaks are worth $12.8 billion over the next ten years.[7] There are at least eleven separate provisions allowing oil and gas producers to reduce their tax

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[2]Unless otherwise indicated, all data on industry contributions are from the Center for Responsive Politics (on line at http://www.opensecrets.org/industries/index.asp).

[3]§§ 2401, 5005.

[4]§§ 3117, 3118. Staff of the Joint Committee on Taxation, *Estimated Revenue Effects of a Chairman's Amendment in the Nature of a Substitute to the "Energy Tax Policy Act Of 2001" Scheduled for Markup by the Committee on Ways and Means on July 18, 2001*, 107th Cong. (July 18, 2001) (JCX-62-01) (hereinafter "Joint Committee on Taxation, Staff Report (July 18, 2001)").

[5]§ 6701.

[6]§ 6704.

[7]Joint Committee on Taxation, Staff Report (July 18, 2001).

payments.[8] For example, the bill would allow oil and gas producers to accelerate depreciation, carry losses back for five years, avoid otherwise applicable alternative minimum tax requirements, and expense various costs.

H.R. 4 further subsidizes the industry by suspending royalties for oil and gas lease sales, which is estimated to cost taxpayers around $7.4 billion.[9] H.R. 4 also requires the Interior Department to reduce royalty rates for "marginal" oil and gas wells, which are defined so generously as to cover most onshore wells.[10] According to the Congressional Budget Office (CBO), this provision would cost $491 million in lost royalties, based on conservative assumptions.[11] The bill provides an additional $900 million for research and development and demonstration grants for technologies for ultra-deepwater mining.[12] And the bill would require the federal government to reimburse the industry for spending on required environmental analyses.[13] The CBO estimates that this could cost $350 million in forgone royalties over a ten-year period.[14]

In total, these tax breaks and other subsidies for the oil and gas industry amount to $22.0 billion over the next ten years.

In addition to these direct monetary subsidies, the bill would weaken or eliminate environmental protections for federal lands to facilitate oil and gas development. H.R. 4 would open the Arctic National Wildlife Refuge (ANWR) for drilling, a key oil company objective.[15] The bill also waives environmental protections that would otherwise apply to drilling in

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[8] §§ 3302-3310, 3202-3206.

[9] § 6202. This estimate was based on a slightly different version of this provision contained in H.R. 2436 as reported by the House Committee on Resources. *See* House Committee on Resources, Minority Staff, *Democratic Analysis of the Resources Committee Republican Energy Bill "Energy Security Act"* (July 10, 2001).

[10] § 6233; House Committee on Resources, *Additional Dissenting Views on H.R. 2436 Filed by Rep. Ron Kind and Rep. Nick Rahall*, 107th Cong. (July 20, 2001) (available on line at http://www.house.gov/apps/list/hearing/ii00_democrats/dissentingvwsnjrkind.html).

[11] Congressional Budget Office, Cost Estimate for H.R. 2436 (July 27, 2001).

[12] § 2450. The $900 million authorized to be appropriated for the "Ultra-Deepwater and Unconventional Gas Research Fund" is to be considered a loan from the Treasury, to be repaid through royalties, if any are received. However, any such royalties would have gone to the federal government in any event, so there does not appear to be any net repayment.

[13] § 6234.

[14] Congressional Budget Office, Cost Estimate for H.R. 2436 (July 27, 2001).

[15] §§ 6501-6512.

ANWR.[16] H.R. 4 seriously weakens environmental protections for leasing and drilling on other federal lands as well. For example, the Forest Service will no longer be allowed to stipulate environmental protections in leases for drilling on National Forest lands if the state has not made such stipulations.[17] And federal land management agencies would be largely unable to reject lease offers for drilling on public lands.[18]

H.R. 4 gives the oil and gas industry numerous other benefits as well. The bill would allow the Interior Department to accept royalties in kind (in barrels of oil or units of gas) from leasing federal lands.[19] In the past, the federal government has lost money in converting in-kind oil and gas royalties to revenues.[20] The bill also requires the Department to reimburse the industry for any transportation and processing costs associated with the in-kind royalty payments.[21] The bill authorizes up to 7.5% of total federal income from oil and gas leases from fiscal years 2002-2009 to be used to fund ultra-deepwater research and demonstration projects, potentially diverting substantial funds from other spending priorities.[22] In addition, the bill requires EPA to conduct several rulemakings to consider relaxing regulations that affect the refining industry.[23] It also sets up an interagency task force to expedite permitting of natural gas pipelines.[24]

Highly specific provisions appear to benefit particular companies. For example, one provision would allow the Secretary of Interior to suspend the term of existing subsalt leases, which would benefit Houston-based Anadarko Petroleum Corporation.[25] According to the

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[16]§§ 6503, 6508.

[17]§ 6223.

[18]§ 6223.

[19]§ 6232.

[20]Congressional Budget Office, Cost Estimate for H.R. 2436 (July 27, 2001); House Committee on Resources, *Additional Dissenting Views on H.R. 2436 Filed by Rep. Ron Kind and Rep. Nick Rahall*, 107th Cong. (July 20, 2001) (available on line at http://www.house.gov/apps/list/hearing/ii00_democrats/dissentingvwsnjrkind.html).

[21]§ 6232.

[22]§ 2450.

[23]§§ 601-603.

[24]§ 6104.

[25]§ 6231. House Committee on Resources, *Dissenting Views on H.R. 2436*, 107th Cong. (July 20, 2001) (available on line at http://www.house.gov/apps/list/hearing/ii00_democrats/dissentingvws.html).

Center for Responsive Politics, Anadarko contributed $448,529 during the 2000 election cycle, of which 98% was to Republicans. Anadarko also reportedly has connections to Vice President Dick Cheney and his wife.[26]

The tax breaks and subsidies to the oil and gas industry are not justified by economic hardships in the industry. The oil and gas industry has been particularly profitable in recent years. Three major oil and gas companies alone made $309.1 billion in revenues in 2000, which translated to $25.3 billion in profits.[27] A recent front page story in the *Wall Street Journal* describes a "big problem" faced by the oil and gas industry -- the companies are "sitting on nearly $40 billion in cash" that they are struggling to invest.[28]

III. ELECTRIC UTILITIES' CONTRIBUTIONS AND RETURNS

Electric utilities gave $18.6 million in the 2000 election cycle, of which 67% went to Republicans.

Electric utilities would receive several specific tax breaks under H.R. 4, as well as benefitting from many of the subsidies and tax breaks identified in this report for the coal, oil and gas, and nuclear industries. For example, changes to tax laws governing bond issuance would help utilities finance electricity production and cost the Treasury $2.5 billion over ten years.[29] Other provisions relating to sales of electricity transmission lines would cost $2.9 billion over the next five years.[30] These provisions would change the tax treatment of utilities' sales of transmission properties under electricity restructuring policies. Special rules for electric cooperatives would cost $179 million over ten years.[31] And a particular tax exemption for governmental utilities purchasing natural gas would cost $827 million over ten years.[32] In total, this amounts to $5.9 billion for electric utilities over ten years.

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[26] *Bush Energy Bill Has One Big Winner,* Boston Globe (July 14, 2001) (available on line at http://www.boston.com/dailyglobe2/195/nation/Bush_energy_bill_has_one_big_winner+.shtml).

[27] *See* Fortune.com (available on line at http://www.fortune.com).

[28] *Major Oil Companies Struggle to Spend Huge Hoards of Cash,* Wall Street Journal (July 30, 2001).

[29] § 3207. Joint Committee on Taxation, Staff Report (July 18, 2001).

[30] §§ 3208, 3209. Joint Committee on Taxation, Staff Report (July 18, 2001).

[31] § 3211. Joint Committee on Taxation, Staff Report (July 18, 2001).

[32] § 3213. Joint Committee on Taxation, Staff Report (July 18, 2001).

IV. THE NUCLEAR INDUSTRY'S CONTRIBUTIONS AND RETURNS

The nuclear industry gave more than $13.8 million to federal candidates and committees in the 2000 election cycle, of which more than two-thirds went to Republicans.

H.R. 4 gives tax breaks for nuclear power worth $1.9 billion over the next ten years.[33] It also provides numerous subsidies for nuclear energy, totaling over $633 million over the next three years, and over $100 million more in later years.[34] These provisions would subsidize research and demonstration projects in areas such as uranium mining (through in situ leaching), uranium conversion operations, fuel recycling, plant optimization, and nuclear technologies. In total, H.R. 4 provides almost $1 billion for nuclear power in the next three years alone, and $2.7 billion over the next ten years.

The bill also moves the nuclear waste fund off-budget, which the nuclear industry strongly supports.

V. AUTO MANUFACTURERS' CONTRIBUTIONS AND RETURNS

The automotive manufacturing industry gave $2.2 million in the 2000 election cycle, of which 69% went to Republicans.

The most significant aspect of H.R. 4 regarding motor vehicles is what the bill does not do. In the face of national concern over gas prices and our dependence on oil imports, H.R. 4 does not require any meaningful improvement in motor vehicle fuel efficiency, which is regulated under the Corporate Average Fuel Economy (CAFE) standards. The bill contains a requirement to reduce the amount of gasoline that SUVs and trucks would otherwise use over a six-year period by five billion gallons.[35] Although this figure sounds impressive, it represents only 0.2% of projected petroleum consumption. Moreover, the provision appears to weaken existing requirements for the National Highway Traffic Safety Administration to mandate more stringent reductions. When coupled with the bill's extension of a loophole for vehicles that could be run on ethanol (but almost never are), H.R. 4 will *reduce* overall motor vehicle fuel economy.[36]

The bill provides numerous other breaks for the auto manufacturers. For example, several provisions to increase use of alternative fuels cover dual-fuel vehicles, rather than just dedicated alternative fuel vehicles. This helps auto manufacturers exploit the CAFE loophole for

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[33] § 3210. Joint Committee on Taxation, Staff Report (July 18, 2001).

[34] §§ 306, 308, 2304, 2344.

[35] § 201.

[36] § 203. *See* Rep. Henry A. Waxman, *Analysis of the Burr Amendment to the Corporate Average Fuel Economy (CAFE) Law* (July 19, 2001).

vehicles that can use alternative fuels, but do not do so. These provisions include an exemption allowing dual fuel vehicles to use HOV lanes and federal fleet acquisition requirements.[37]

[37]§§ 204, 205.